CAPITAL PROJECTS AND BOND OVERSIGHT COMMITTEE

Minutes

March 17, 2004

The Capital Projects and Bond Oversight Committee met on Wednesday, March 17, 2004, at 8:00 AM, in Room 131 of the Capitol Annex. Senator Robert Leeper, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Senator Robert Leeper, Co-Chair; Representative Jodie Haydon, Co-Chair; Senators Tom Buford, Virgil Moore, and Jerry Rhoads; Representatives Robert Damron, Paul Marcotte, and Jim Wayne.

Guests testifying before the committee: Bill Hintze, Governor's Office for Policy and Management; Warren Nash, Cabinet for Economic Development; Sandy Williams, Kentucky Infrastructure Authority; James Ackinson, Kentucky Housing Corporation; and George Burgess and Tom Howard, Office of Financial Management.

LRC Staff: Mary Lynn Collins, Pat Ingram, Nancy Osborne, Kevin Mason, and Shawn Bowen.

Representative Marcotte made a motion to approve the minutes of the February 18, 2004 meeting as submitted. The motion was seconded by Senator Moore and passed by voice vote.

Senator Leeper called on Ms. Collins to review correspondence and information items. Ms. Collins said members' folders included one item of correspondence – the Kentucky Lottery Corporation's monthly financial report for January 2004. Also included in members' folders were four information items: follow-up information from the Committee's February meeting relating to the Department of Agriculture's Purchase of Agricultural Conservation Easements (PACE) program; a notice of a Design-Build contract for the University of Kentucky Center for Pharmaceutical Science and Technology project; proposed legislation relating to the jurisdiction of the Capital Projects and Bond Oversight Committee; and a staff update on various capital projects.

Senator Leeper asked Mr. Bill Hintze, Deputy Budget Director, Governor's Office for Policy and Management, to present the monthly Finance and Administration Cabinet project report.

Mr. Hintze reported an unbudgeted purchase by the Department of Military Affairs for a Mobile Command Post vehicle. He said the Department plans to purchase a state-of-the-art vehicle to respond to emergencies and disasters. The vehicle will be fully equipped with various communication equipment: landline, cell, and satellite communications; two-way radios and radio-based communication devices; computer server and local area network; and video conferencing facilities. The cost of the purchase is $650,000 and is to be funded from the federal Homeland Security Act.

Senator Moore made a motion to approve the Department of Military Affairs project. The motion was seconded by Representative Marcotte and passed by unanimous roll call vote.

Senator Leeper said the next agenda item was the bond activity report from the Office of Financial Management. He asked Mr. Warren Nash, Deputy Commissioner, Department for Financial Incentives, Economic Development Cabinet, to report the Economic Development Bond (EDB) project. Mr. Nash reported a grant of $100,000 to the Montgomery County Fiscal Court, to benefit Nestle, Inc. The company anticipates investing approximately $30.5 million in a 41,000 square foot expansion of its Montgomery County plant. The grant funds will be used for installation of approximately 3,000 feet of gravity line to a new waste treatment plant located near the company's plant. In return for the grant, Nestle will be required to create 100 full-time jobs within one year of the grant disbursement in addition to its current workforce of 192 full-time jobs. Nestle's will be required to maintain the current workforce and the newly created jobs for an additional five years at an average annual hourly wage of no less than $10.50. If they do not create or maintain these jobs, Nestle will be required to pay the County $1,000 for each job not created or maintained.

Representative Wayne asked Mr. Nash to explain the Nestle's employee benefit package. Mr. Nash said he did not have that information on hand, but he would get the information to the Committee. (Later in the meeting, he distributed to members the Nestle, Inc. employment benefit package.)

Senator Moore made a motion to approve the EDB grant contingent upon the Economic Development Cabinet providing the Committee with the grant agreement once it is executed. The motion was seconded by Representative Wayne and passed by unanimous roll call vote.

Mr. Nash said that the Cabinet would transmit the grant agreement once it is executed, but noted that it could take six to eight months for the grant agreement to be finalized.

Senator Leeper asked Mr. Nash to update the Committee on another EDB Pool Project, the Purchase Area Regional Industrial Authority (PARIA). This project was previously discussed by the Committee at its August 2003 meeting.

[Included in the ED Pool 2002-04 budget authorization was $5 million to be used for a regional industrial development project with an existing multi-county agreement. In August 2003, the Economic Development Cabinet reported to the Committee it had approved a joint application for these funds from PARIA and the Graves County Fiscal Court. The $5 million, along with other funding, will be used to plan and develop a first marketable phase of that park. The Finance Cabinet requested that funds not be disbursed for this grant until PARIA's Master Plan is completed and accepted by the Economic Development Cabinet and the Finance and Administration Cabinet.]

Mr. Nash said they have met with officials from PARIA several times. They met last week to discuss parameters for disbursement of the grant funds, and they are fine-tuning the Master Plan and working on the restrictive covenants to be placed on the property to make sure they are flexible enough to market the property. He said they hope to execute the grant agreement within the next few months.

In response to a question from Senator Leeper, Mr. Nash said the bonds have been issued for this project, and the funds are available. Once the grant agreement and the disbursement documents are in place, they will disburse the funds. Mr. Nash said project changes will need to be reviewed by KEDFA again.

Ms. Sandy Williams, Kentucky Infrastructure Authority (KIA), reported three new Fund A loan requests. She first reported on a Fund A loan request in the amount of $618,137 for the City of Marion. The proceeds will be used to rehabilitate an existing sewer system to eliminate overflows. Secondly, she reported a Fund A loan request in the amount of $6,558,204 for the City of Morehead. The proceeds will be used to expand the capacity of an existing regional sewer treatment plant. The final Fund A loan reported was in the amount of $949,190 for the Paducah-McCracken Joint Sewer Agency. The proceeds will be used to replace the grit removal and flow measurement system at its treatment plant and to make other improvements to the treatment plant.

Representative Wayne asked why the engineering fees for the Fund A loan for City of Marion are so high. Ms. Williams said the Environmental and Public Protection Cabinet requires that a regional facilities plan be completed before sewer projects are initiated. In this case, the regional facilities plan for the City of Marion needed to be updated and this effort was part of this project. The additional fees related to the plan for testing, design work, and inspection work were included in the engineering fee.

Senator Rhoads made a motion to approve the three KIA Fund A loans. The motion was seconded by Senator Moore and passed by unanimous roll call vote.

Senator Leeper said included in members' folders were two reports from KIA regarding various new KIA 2020 Account/Fund B Grants and new Coal Development Grants. The Committee has already approved the 2020/Fund B Grants and the General Assembly authorized each of the coal and tobacco projects identified. No further action was required.

The next report was provided by George Burgess, Executive Director for the Office of Financial Management (OFM), and Tom Howard, Deputy Executive Director, OFM. Mr. Howard introduced Mr. Jim Ackinson, Chief Financial Officer, Kentucky Housing Corporation (KHC), to discuss the first OFM item for consideration – reconsideration of the KHC Multifamily Housing Revenue Bonds, 2004 Series A (Falcon Crest Apartments project).

[This issue was first presented to the Committee December 16, 2003. However, since the Committee had a number of questions regarding the proposal, the Committee deferred action on the issue.]

Mr. Ackinson said at the request of the Committee, KHC had provided a written response to questions members had raised on this project. He said KHC met several times with Representative Wayne, who represents the community where the Falcon Crest Apartments are to be built.

[In addition, KHC transmitted a letter to the Committee it had received from Louisville Mayor Jerry Abramson in support of the housing project.]

Mr. Ackinson said the financing plan for this project is unchanged. The net proceeds will not exceed $11,564,000, and will be used to provide financing for a new 208 unit multifamily housing complex in Louisville.

Representative Wayne commended Mr. Ackinson, Lori Flanery, KHC General Counsel, and the project developer LDG Development. He said they met on several occasions, and a lot of his concerns had been clarified. He asked that KHC develop guidelines for these types of bond issues where it serves as the conduit for multifamily housing developments, and submit those guidelines to the Committee. Representative Wayne said the zoning request for this project was made before the project was reviewed by the Committee, so he was not able to participate in the zoning discussion. Representative Wayne said the Committee should have a "heads-up" on projects such as these.

Representative Wayne said apartment complexes such as Falcon Crest should be built in areas with a population of mixed income. In this case, the school board was not was not consulted concerning the proposed development, and had no idea a large number of new children would be added to the school system. He said this project is being built in an area of Louisville where the school system is already overloaded with children on free and reduced cost lunches. Placing the development in this location will strain an already overloaded school system. Also, this project initially did not have a traffic study, a marketing study, or a drainage study. He said KHC, at his request, had seen that these studies were done. He suggested requirements for such analyses be put into the guidelines for KHC to follow when acting as a conduit for these types of bond issues.

Mr. Ackinson agreed that they would draft guidelines for future multifamily housing projects and present them to the Committee for its review.

Representative Wayne made a motion to approve KHC Multifamily Housing Bonds, 2004 Series A, Falcon Crest Apartments project. The motion was seconded by Representative Haydon and passed by unanimous roll call vote.

Mr. Ackinson reported one other bond issue: KHC Single Family Housing Revenue Bonds, 2004 Series A or additional series in an amount not to exceed $60 million. The proceeds will be used to provide mortgage financing for first time low and moderate income Kentucky homebuyers.

Representative Wayne made a motion to approve KHC Single Family Housing Revenue Bonds, 2004 Series A. The motion was seconded by Senator Rhoads and passed by unanimous roll call vote.

Mr. Howard presented two new bond issues for the University of Kentucky (UK): UK Housing and Dining System Refunding Revenue Bonds, Series N, P, Q and R (Second Series), dated March 1, 2004, $20,425,000; and UK Consolidated Educational Buildings Refunding Revenue Bonds, Series P, Q and R (Second Series), dated March 1, 2004, $54,110,000.

In response to a concern by Representative Damron relating to the low savings associated with these issues, Mr. Howard explained the net present value (NPV) savings are only 1.5% or less. He said OFM ordinarily anticipates a NPV savings of 4-5% for refunding issues. He said these bonds are agency fund-supported and not General Fund-supported bonds. He said rates are at all time lows and given the current budget situation, the University feels they should go forward with the issues.

Representative Damron said he would question the financial advisor who advised the University to pursue these bond issues. Mr. Howard said they expressed reservations to the University about refunding at this particular level. In the current market environment, they use a 2% floor as the absolute minimum to execute transactions. However, the University felt strongly that they wanted to pursue this bond issue because these were their agency restricted dollars. He said their Board directed them to move forward, and OFM determined that as long as they established a minimum threshold of at least 1%, they would not disapprove the transaction.

Mr. Howard next reported another new bond issue: State Property and Buildings Commission (SPBC) Revenue Refunding Bonds, Projects No. 83 and No. 84, in a total principal amount not to exceed $460,000,000. Mr. Howard said OFMEA is asking for a larger authorization in the event the market continues to rally. At the current time, he said they expect SPBC project No. 83 bonds to be sold within the next ten days or so. He said this bond issue is approximately $220,000,000 and would generate approximately 2.8 to 3 percent NPV savings. Mr. Howard said consideration is being given to taking the savings now rather than spreading them over the life of the refunding issue.

In response to a question from Representative Wayne, Mr. Howard said Project No. 83 would generate approximately $5.7 million in savings and Project No. 84 would generate approximately $800,000 in savings. However, he said Project No. 84 is not slated for sale; they are waiting for better market conditions.

In response to another question from Representative Wayne, Mr. Howard said the $5.7 million in NPV savings have not been factored into the Governor's proposed budget or the budget passed by the House.

Representative Wayne made a motion to approve the three bond issues (Item 6B(3) c, d and e). The motion was seconded by Senator Rhoads and approved by roll call vote. (Seven members voted affirmatively; Representative Damron passed on the vote.)

Senator Leeper noted that also on the agenda were four follow-up reports for previously approved bond issues: Northern Kentucky University Consolidated Educational Buildings Revenue Bonds, Series L, dated January 1, 2004; Morehead State University Consolidated Educational Buildings Refunding and Improvement Revenue Bonds, Series M, dated January 1, 2004; University of Kentucky Consolidated Educational Buildings Refunding Revenue Bonds, Series E, J, and L (Third Series), dated January 1, 2004; and SPBC, Project No. 82, dated February 25, 2004. Senator Leeper said these four bond issues were approved by the Committee at an earlier meeting and no further action is required.

Senator Leeper then asked Mr. Burgess to present the new school bond issues. Mr. Burgess said there were 20 school bond issues with School Facilities Construction Commission (SFCC) debt service participation: Barren County, Butler County, Campbellsville Ind. (Taylor Co.), Casey County, Estill County, Fayette County, Franklin County (3), Green County, Harrison County, Kenton County, Marion County, Marshall County, Morgan County, Muhlenberg County, Raceland-Worthington Ind. (Greenup Co.), Somerset Ind. (Pulaski Co.), Taylor County, and Trigg County.

Senator Buford made a motion to approve the 20 school bond issues. The motion was seconded by Representative Marcotte and passed by roll call vote. Seven members voted affirmatively; Representative Damron abstained from the vote, citing a potential conflict of interest.

Senator Leeper said there were three locally–funded school bond issues submitted to the Committee for review this month: Breathitt County, Daviess County, and Taylor County. He said all disclosure information has been filed, and no further action on the bond issues is required.

Senator Leeper said the Committee's next meeting will be scheduled for April 12 or 13 during the Veto Session.